
Minutes

Board of Natural Resources Meeting

June 6, 2006
Natural Resources Building, Olympia, Washington

BOARD MEMBERS PRESENT

Doug Sutherland, Commissioner of Public Lands

Terry Bergeson, Superintendent of Public Instruction

Bruce Bare, Dean, University of Washington, College of Forest Resources

Daniel J. Bernardo, Dean, Washington State University, College of Agricultural, Human, and Natural Resource Sciences

BOARD MEMBERS PRESENT BY PHONE

Ted Anderson, Commissioner, Skagit County

BOARD MEMBERS ABSENT

Bob Nichols, for Governor Christine Gregoire

CALL TO ORDER

Chair Sutherland called the meeting to order at 9:05 a.m. on, June 6, 2006, in Room 172 of the Natural Resources Building.

APPROVAL OF MINUTES

MOTION: Mr. Anderson moved to approve the March 21, April 4, & May 2 Board of Natural Resources Meeting Minutes.

SECOND: Mr. Bernardo seconded.

ACTION: Motion passed unanimously.

PUBLIC COMMENTS FOR AGENDA ACTION ITEMS

No public comment for agenda action items.

LAND TRANSACTIONS (ACTION ITEM)

Kittitas Wildlife Phase II #02-077745 (Handout1)

Mr. Challstedt came forward to present. He explained that the Cabin Creek property is two miles southwest of Lake Easton in Kittitas County; it is the west half of Section 16, T20N, R13E, W.M. The Kittitas Wildlife Phase I was approved by the Board of Natural Resources March 7, 2006. The values are as follows:

- 320 acres of Common School Trust
- Timber: 7,215 mbf with a value of \$2,200,000 @ \$305/mbf
- Land value: \$128,000 @ \$400/acre
- Total value: \$2,328,000

Benefits of the Kittitas Wildlife Phase II transfer are:

- Divest the trusts of low-income producing property
- Benefit school construction through timber value
- Land value would reinvested in productive land
- Property would transfer to WDFW and is dedicated to fish and wildlife habitat, recreation, or open space purposes, and the Department HCP would be retained on the land.

MOTION: Terry Bergeson moved to approve Resolution #1200.

SECOND: Ted Anderson seconded.

ACTION: Motion passed unanimously.

Caspers Interdepartmental Exchange #86-078636 (Handout2)

Normal School Trust timber interest is 10 miles east of Duvall in King County. The Common School Trust parcel is eight miles east of Sequim in Jefferson County. The characteristics are as follows:

- 75 acres
- Timber volume: 3,161mbf
- Timber value: \$1,147,000
- Normal School Trust exchanged to Common School Trust prior to transfer

Transfer conditions are as follows:

- Recipient is Seattle Public Utilities
- Deed Restriction is for Wildlife habitat, open space, or recreation for 30 years

Benefits of transfer are as follows:

- Common School Trust disposes of a partial ownership interest
- Common School Trust receives revenue for schools

Normal School Trust Exchange Balance:

Loss:

- 75 acres timber
- 3,161 mbf timber
- \$1,147,000 timber

Gain:

- 70 acres land and timber
- 2,823 mbf timber
- \$1,152,000 land and timber

Exchange Public Hearing:

- Public hearing in North Bend May 4, 2006
- One person attended and testified in favor of exchange/transfer
- One person submitted written support of exchange/transfer

Benefits of Exchange

- Normal school trust
 - o Receives property of equal value
 - o Positioned for timber income
 - o Positioned for property appreciation

- Common School Trust positioned for transfer

MOTION: Ms. Bergeson moved to approve Resolution #1201.

SECOND: Mr. Bare seconded.

ACTION: Motion passed unanimously.

Caspers Timber Reserve #02-077615 (Handout2)

MOTION: Ms. Bergeson moved to approve Resolution #1202.

SECOND: Mr. Bernardo seconded.

ACTION: Motion passed unanimously.

Rotha Road #02-077864 (Handout3)

Pam Plancich came forward to present the Rotha Road Public Auction transaction. She stated that the property is Common School Trust located in Benton County, 12 miles north of Prosser. The property is 4.11 acres with an appraised value of \$23,000, equaling \$5,600 per acre. She explained that the improvements on the property are owned by the Miller's and are valued at \$30,000. The resolution would sell 4.11 acres at public auction with all transaction costs and improvements paid by the successful bidder.

MOTION: Mr. Anderson moved to approve Resolution #1203.

SECOND: Ms. Bergeson seconded.

DISCUSSION: Ms. Bergeson asked if a report could be provided for the Board showing the last five years of transactions.

ACTION: Motion passed unanimously.

TIMBER SALES (Action Item)

Proposed Timber Sales for July 2006 (Handout 4)

Tom Heller and Howard Thronson came forward to present the results of the May 2006 timber sales auctions:

13 sales offered & 12 sold; 45.1 mmbf offered & 43.1 mmbf sold; \$10.6 million minimum bid & \$14.0 million sold; \$247/mbf & \$325/mbf sold; average number of bidders is 3.5; 32% above minimum bid.

Proposed July 2006 Board Sales:

Four sales at 8 mmbf; \$2.5 million minimum bid; average \$307/mbf.

Mr. Heller talked about contract sorts.

Mr. Thronson said there can be a positive value on the stumpage and the trucking but there are penalties for mixing sorts.

Ms. Bergeson clarified that the contract sort log sales help clean up some of the downed debris, thus helping out with forest health issues, at a lower cost.

Mr. Thronson talked about bio fuels and forest health issues stating that DNR is working on a venture to create bio fuels out of forest slash. He said that one of the things the agency hopes to accomplish is to make money off the low value pulpwood by converting it into bio fuel. He said that if this is successful it would bring in more revenue in the next rotation.

Ms. Bergeson asked if this was part of the management cost of doing business for sustainability.

Mr. Thronson said that was correct.

MOTION: Ms. Bergeson moved to approve the proposed July 2006 timber sales.

SECOND: Mr. Bare seconded.

DISCUSSION: Mr. Bernardo asked what the rationale was for moving sales back into the previous target and if there was a desired target.

Mr. Thronson said DNR had targeted approximately 540 mbf deliverable and if all the sales for June sell the Department would be at 544 mbf for that fiscal year. He stated that the trajectory for sales at the adoption of the SHC in November 2004 was to obtain 5.97 billion board feet in the decade period for the Sustainable Harvest. With the lawsuit that was filed the trajectory was lowered a little bit for about a year and DNR is now on target to deliver the 540 and then go to 607 for the Westside in 2006 and then 650 in 2007. He said the trajectory is based on the fund balance for the agencies management funds and the staff available to produce along with the different steps that the Land Management Division are taking with implementing the Marbled Murrelet Recovery Plan.

Mr. Bare asked for a summary of the strategy.

Mr. Thronson said it would be provided to the Board.

Chair Sutherland asked for an update on the SFI Certification.

Clay Sprague came forward and informed the Board that the Department initiated an audit to verify the high potential of being certified on the Eastside. It included a desk audit where the auditors come in and look at all the policies and documents that govern the agencies activities. The desk audit was followed by a field audit where the auditors go out and look at a random selection of activities to ensure that the agency is truly following the policies. He stated that DNR passed the desk audit with flying colors and the field audit was successful in that DNR exceeded all the SFI standards in Northeast and Southeast Region. The agency also received seven notable practices, which is recognition of those things that are above and beyond the SFI standards. He said he expected the final report in several weeks and that would be followed with formal certification of all of the lands in the state under SFI standards.

Mr. Thronson stated that DNR worked with the legislature to establish authority for the Department to do forest improvement timber sales through contract harvesting and utilizing the contract harvesting revolving account to pay for an operator to perform a silvicultural treatment on the trust lands in Northeast and Southeast Regions. He said that 5,700 acres had been treated so far with this process and have actually received income to the trusts while paying for the silvicultural treatment to address forest health,

overstocking, fuel loading, and fire threats. Mr. Thronson added that the SFI auditor said that this is the first state/state agency/trust manager, that they have seen in the United States that's been able to figure out a mechanism to make that successful.

Mr. Sprague added that the biggest success DNR had from the field audits was from the field staff that participated in the process from both regions.

Ms. Bergeson stated that this was a tremendous example of government accountability and the integrity of DNR's efforts.

Chair Sutherland added that these field visits are random and it's a true test to the quality and efficiency of staff and the agency. He pointed out that John Viada and Bill Boyum were the Region Managers also responsible for this success.

ACTION: Motion passed unanimously.

CHAIR REPORTS

Policy for Sustainable Forests

Clay Sprague came forward to discuss the Policy for Sustainable Forests. He noted that the Board members had made some final tweaks to Old Growth, Silviculture, Wildlife, and Watershed Systems.

Mr. Sprague informed the Board members that on May 25, 2006, Bruce Mackey, Craig Partridge, and Gretchen Nicholas met with the Settlement Partners and discussed the PSF. They informed the partners that DNR expected Board action at the July 11 Board meeting and that the FEIS would be available in mid to late June. The partners responded that they have no plans nor are they aware of other's plans to challenge the FEIS or the Board's action on the PSF.

Mr. Sprague went on to review the draft resolution for the policy for sustainable forests.

Ms. Bergeson asked about section seven of the resolution where it talks about policy guiding management.

Mr. Sprague responded that this is an issue that's trying to clarify something that came up with the adoption of the Forest Resource Plan in 1992. He explained that there were claims that the adopted policies gave the opportunity for a claimant to sue the Department on non-performance of the policy implemented as the claimant thought it should be. He said the language in this resolution is to clarify that the Board's intent is to adopt these policies to guide management not to create an enforceable right to sue for non-conformance of those policies.

Mr. Sprague added that funding and budget issues are the reasons why a policy might not be implemented fully or as quickly as planned.

Ms. Bergeson thought the language should reflect that external forces might affect the implementation and DNR shouldn't be sued on those grounds.

Break at 10:05.

Reconvene at 10:15.

Resource Management Cost Account (RMCA) Fund Balances

Mr. Mackey presented on the investments from increased management fee and RMCA fund balance. He reminded the Board that in the 2005 legislative session in the operating budget the language included allowed the Board of Natural Resources to increase the RMCA management fund from 25% to 30 %. The language also included DNR making a report in January to the appropriate committees in the legislature, which has occurred. Mr. Mackey talked about the adoption of Resolution 1165, which increased the management fee from 25% to 30% but stated that the resolution also required that “The Department will report the progress and status of the resource management cost account fund balance, including projected end-of-biennium fund balance, to the Board of Natural Resources in January and June 2006. Followed by a biannual report thereafter.”

Mr. Mackey stated that the Board had approved the 30% increase so that DNR could make the necessary investments to meet the Sustainable Harvest Calculation (SHC) and fully implement the Habitat Conservation Plan (HCP). Those investments are detailed in the report. The report concluded: “The increased management deduction has allowed DNR to begin implementing the new sustainable harvest plan. This funding and its continuation are supporting the investments needed to achieve the plan’s economic and ecological potential.”

He then talked about the last three projections. He added that employment is strong, increased volume has increased economic activity across the state, and the Department is on its way to implementing the SHC and HCP as the Board directed. The Department has also treated 3,000 acres with forest improvement sales this fiscal year and have another 4,000 scheduled next fiscal year.

Mr. Mackey gave the first projection on revenue:

There have been some changes since the report, the two notable ones being that DNR’s volume projections are down a little due to the lawsuit and subsequent settlement. However, DNR fully expects to meet the decadal target set in the SHC of 5.97 billion board feet and the variation from the annual targets is well within the 25% variation authorized in the SHC. Prices are higher than forecasted at the time of the report. DNR is on target to actually exceed the net revenue projection of 300 million dollars over the planning decade.

Mr. Mackey said that although that is good news, prices have been variable, and are not under our control. If prices remain strong there will be a healthy fund balance to continue to make the investments as directed. If prices fall the reverse could be true.

- Increasing net revenue to beneficiaries by \$300 million for the first decade compared to not implementing the plan
- Creating 2,000 new jobs across the state of Washington in the upcoming decade
- Conserving and enhancing habitat on a landscape level to meet the Endangered Species Act requirements
- Addressing forest health issues by creating healthy working forests to meet the trust mandate

Ms. Bergeson talked about creating jobs and thought it would be smart to let Governor Gregoire know that it would be accomplished through this process.

Mr. Anderson added that he had a meeting with the President of Sierra Pacific and in that meeting the President conveyed that part of the reason they chose Washington State to open a new mill is due to the excellent way state lands are managed through DNR. The opening of the mill would create 200 jobs.

Ms. Bergeson asked for a concept paper to understand these issues so when the opportunity arises the Board members can speak on them.

Mr. Mackey talked about prices over the last ten years stating that the only time the prices were higher than current prices, was ten years ago.

Mr. Mackey stated that if prices remain as forecasted, the Board could adjust the percentage in the future, or the Department could simply distribute the funds, or stop deducting them as it has done in the past. For example, in 2009 the funds could be managed to keep a minimum fund balance at \$21 million.

He concluded by saying that he believed it would still be in the best interest of the beneficiaries to obtain legislation that allows the BNR to set the management fee up to 30% during the decade of the current Sustainable Harvest Plan. This would allow the Department to continue to invest and achieve the economic and ecological goals adopted in the SHC.

PUBLIC COMMENTS FOR GENERAL ITEMS OF INTEREST

None.

Meeting adjourned at 11:00 p.m.

Approved this ____ day of _____, 2005

Doug Sutherland, Commissioner of Public Lands

Bob Nichols for Governor Christine Gregoire

Bruce Bare, Dean, University of Washington

Daniel J. Bernardo, Dean, Washington State University

Terry Bergeson, Superintendent of Public Instruction

Ted Anderson, Commissioner, Skagit County

Attest:

Sasha Lange, Board Coordinator